

Message Text

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PAGE 01 STATE 141198
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TO AMEMBASSY ADDIS ABABA

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E.O. 11652: N/A

TAGS: EAID, IBRD, EFIN, ET

SUBJECT: IDA DECISION ON ETHIOPIA

REF: A. STATE 136298; B. ADDIS ABABA 3625

FOLLOWING IS TEXT OF IDA STATEMENT ON DECISION TO WITHDRAW
GRAIN STORAGE AND MARKETING PROJECT LOAN FROM CONSIDERATION
AT JUNE 9 MEETING OF EXECUTIVE DIRECTORS:

"AS YOU WERE INFORMED BY THE SECRETARY'S MEMORANDUM CIRCULATED YESTERDAY, WE HAVE REGRETFULLY DECIDED THAT IT WOULD BE ADVISABLE TO POSTPONE FOR THE TIME BEING CONSIDERATION OF THE PROPOSED GRAIN STORAGE AND MARKETING PROJECT IN ETHIOPIA.

"WE HAVE BECOME INCREASINGLY CONCERNED REGARDING THE PROSPECTS FOR THE CONTINUATION OF THE ORDERLY AND EFFECTIVE ADMINISTRATION OF OUR PROJECTS IN THAT COUNTRY. OUR ACTUAL
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EXPERIENCE WITH PROJECT EXECUTION HAS BEEN REASSURING, BUT IT IS OBVIOUS THAT THE SITUATION IN THE COUNTRY HAS REQUIRED OUR CONTINUING CAREFUL CONSIDERATION. WE HAVE FELT TORN BETWEEN OUR DESIRE TO PROVIDE EVERY ASSISTANCE WITHIN OUR POWER TO ETHIOPIA IN ITS TIME OF TROUBLES, AND ON THE OTHER HAND OUR SENSE OF RESPONSIBILITY FOR THE PRUDENT ADMINISTRATION OF THE FUNDS ENTRUSTED TO THE ASSOCIATION.

"SINCE WE DISTRIBUTED THE PAPERS ON THE GRAIN STORAGE AND MARKETING PROJECT TO YOU ON MAY 27TH, A NEW ELEMENT HAS BEEN INTRODUCED INTO THE SITUATION, NAMELY, THE DISRUPTION OF RAIL COMMUNICATION BETWEEN ADDIS ABABA AND THE PORT OF DJIBOUTI AS A RESULT OF THE DESTRUCTION OF SEVERAL BRIDGES ON THE FRANCO-ETHIOPIAN RAILWAY BY INSURGENT FORCES. THE REPORTS WHICH WE HAVE SO FAR RECEIVED ARE INCOMPLETE AND IN SOME CASES CONFLICTING AS TO DETAILS, BUT THERE IS NO DOUBT THAT TRAFFIC ON THIS VITAL ROUTE, WHICH IS ETHIOPIA'S ONLY RAILWAY LINK TO THE OUTSIDE WORLD, HAS BEEN INTERRUPTED. THE FRANCO/ETHIOPIAN RAILWAY CARRIES AT LEAST 25 PERCENT OF ETHIOPIA'S TOTAL FOREIGN TRADE. IF THE INTERRUPTION OF THIS TRAFFIC WERE TO CONTINUE FOR A PROLONGED PERIOD OR IF IT WERE SUBJECT TO REPEATED AND FREQUENT INTERRUPTIONS, THIS WOULD CLEARLY HAVE SERIOUS IMPLICATIONS FOR THE ETHIOPIAN ECONOMY AND FOR THE ABILITY OF THE GOVERNMENT TO IMPLEMENT ITS DEVELOPMENT PROGRAMS INCLUDING THOSE PROJECTS FINANCED BY THE WORLD BANK. WE HAVE, THEREFORE, FELT OBLIGED TO POSTPONE PRESENTATION OF THE GRAIN STORAGE AND MARKETING PROJECT UNTIL WE CAN OBTAIN A CLEARER VIEW OF THE EFFECT OF RECENT EVENTS UPON THE PROPOSED PROJECT AND THE GOVERNMENT'S CAPACITY TO CARRY IT OUT EFFECTIVELY.

"WHILE, FOR THE REASONS STATED ABOVE, WE DO NOT FEEL ABLE TO RECOMMEND A NEW COMMITMENT OF IDA RESOURCES ON THIS PROJECT, WE ARE NOT PROPOSING AT THE PRESENT TIME TO TAKE ANY ACTION TO HOLD UP THE PROGRESS OF ON-GOING IDA PRO- LIMITED OFFICIAL USE

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JECTS IN ETHIOPIA, INCLUDING TWO MAJOR CREDITS WHICH WERE APPROVED BY YOU RECENTLY, \$24 MILLION FOR THE AMIBARA PROJECT AND \$34 MILLION FOR THE HIGHWAYS PROJECT, IN THE HOPE THAT THESE OPERATIONS MAY CONTINUE TO PROCEED IN AN ORDERLY MANNER." VANCE

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